

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 IO-11 ISO-00 EURE-00 SSO-00 NSCE-00

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AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

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DEPARTMENT PASS TREASURY AND DRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: WHITE PAPER ANNOUNCES LARGE CUTS IN PUBLIC
SPENDING

BEGIN SUMMARY. THE GOVERNMENT WHITE PAPER ON PUBLIC EXPENDITURE CONFIRMS THE CHANCELLOR'S PROMISE TO HOLD CON-
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STANT IN REAL TERMS THE LEVEL OF PUBLIC SPENDING DURING

THE THREE FISAAL YEARS STARTING IN MARCH, 1977. TO AC
HIEVE THIS. CUTS OF 3 BILLION POUNDS HAVE BEEN IMPOSED
WITH EDUCATION, ROADS AND TRANSPORT, FOOD SUBSIDIES, EN-
VIRONMENTAL, HEALTH AND PERSONAL SERVICES, AND DEFENSE
BEARING THE LARGEST BURDEN. THE WHITE PAPER LEAVES LIT-
TLE DOUBT THAT THE WEIGHT OF PUBLIC SECTOR SPENDING HAS
SHIFTED FROM CONSUMPTION TO INVESTMENT. ADDITIONAL RE-
SOURCES OF 500 MILLION POUNDS ARE EARMARKED FOR IMPROVING
INDUSTRIAL PRODUCTIVITY. HIGHER TAXES ARE LIKELY SO AS
TO LIMIT THE GROWTH OF PRIVATE CONSUMPTION IN ORDER TO
FREE RESOURCES FOR EXPORT AND INVESTMENT. THIS MESSAGE
WILL TOUCH ON THE HIGHLIGHTS OF THE WHITE PAPER. ANALY-
SIS FOLLOWS IN A SEPARATE MESSAGE. END SUMMARY.

1. AFTER A DELAY OF TWO MONTHS, THE GOVERNMENT PUBLISHED
ITS ANNUAL WHITE PAPER ON PUBLIC EXPENDITURE COVERING THE
FIVE FISCAL YEARS THROUGH 1979-80. SPENDING IN THE FIS-
CAL YEAR BEGINNING IN MARCH HAS BEEN INCREASED BY 480 MIL-
LION POUNDS ABOVE THE AMOUNT STATED IN LAST YEAR'S WHITE
PAPER. IN OART, THESE ADDED RESOURCES STEM FROM THE
THREE PACKAGES OF MEASURES ANNOUNCED IN SEPTEMBER AND DE-
CEMBER 1975 AND LAST WEEK TO REDUCE UNEMPLOYMENT AND STIM-
ULATE INVESTMENT.

2. WHILE NO DETAILS ARE GIVEN, THE WHITE PAPER CONFIRMS
THE GOVERNMENT'S INTENTION TO INTRODUCE ANNUAL CASH LIM-
ITS ON SPENDILG PROGRAMS ACCOUNTING FOR 75 PERCENT OF TO.
TAL EXPENDITURE. MOREOVER, THE CHANCELLOR HAS BEEN TRUE
TO HIS PROMISE THAT NO INCREASE WILL BE ALLOWED IN THE
VALUE OF PUBLIC SPENDING DURING THE THREE FISCAL YEARS
FOLLOWING 1976/77. ON THIS POINT THE WHITE PAPER SPECI-
FICALLY STATES, "THE GOVERNMENT'S PURPOSE . . . WAS TO
ENSURE THAT THE INCREASE IN NATIONAL OUTPUT OVER THE NEXT
THREE OR FOUR YEARS IS NOT APPROPRIATED FOR USE IN THE
PUBLIC SECTOR, BUT INSTEAD IS AVAILABLE TO PUT THE BAL-
ANCE OF PAYMENTS RIGHT, TO PROVIDE FOR INCREASED PRODUC-
TIVE INVESTMELT, AND TO ALLOW A MODEST RATE OF INCREASE
IN PRIVATE CONSUMPTION."

3. THE VOLUME OF PUBLIC EXPENDITURES EXPRESSED IN 1975
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SURVEY PRICES IS SCHEDULED TO RISE FROM 51.17 BILLION
POUNDS IN THE 1975/76 FISCAL YEAR TO 53.32 BILLION IN
1979/1980. SIXTY-ONE PERCENT OF THE PROJECTED 2.15 BIL-
LION POUND INCREASE IS PLANNED FOR THE FISCAL YEAR BEGIN-
NING APRIL 1, 1976 WITH THE REMAINDER SPREAD OVER THE
FOLLOWING THREE FISCAL YEARS. THE AVERAGE ANNUAL RATE
OF INCREASE IL PUBLIC SPENDING HAS BEEN LOWERED TO 0.4
PERCENT DURING THE PERIOD 1976/77 TO 1979/80. THIS IS

BROADLY IN LINE WITH THE CHANCELLOR'S REPEATED PROMISE
TO HOLD THE VOLUME OF PUBLIC SPENDING FLAT FOR THE RE-
MAINDER OF THE DECADE.

4. TURNING TO THE CHANGES BETWEEN THE CURRENT WHITE PAPER AND THE ONE PUBLISHED IN JANUARY 1975, SUBSTANTIAL CUTS ARE EVIDENT IN VIRTUALLY ALL PROGRAMS. THE FOLLOWING TABLE LISTS THE TOTAL CHANGES IN EXPENDITURE PROGRAMS SINCE THE LAST WHITE PAPER. THE AMOUNTS ARE STATED IN MILLIONS OF POUNDS IN 1975 SURVEY PRICES (I.E., PRICES PREVAILING WHEN THE SURVEY WAS COMPILED IN NOVEMBER 1975). DECREASES ARE INDICATED BY PARENTHESES.

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	1975/76	1976/77	1977/78	1978/79
DEFENCE	(9)	(134)	(173)	(198)
OVERSEAS AID		(145)	(56)	(58)
AGRICULTURE		463	(39)	(105)
TRADE, INDUSTRY AND EMPLOYMENT		397	578	478
				492

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NATIONALISED INDUSTRIES.

CAPITAL EXPENDITURE	503	77	(249)	(324)
ROADS AND TRANSPORT	24	(133)	(324)	(506)
HOUSING	5	(175)	(284)	(365)
OTHER ENVIRONMENTAL SERV.	52	(78)	(128)	(224)

LAW, ORDER AND PROTECTIVE

SERVICES	26	6	(51)	(110)
EDUCATION	28	(84)	(331)	(618)
HEALTH	4	(39)	(93)	(152)
SOCIAL SECURITY	173	464	301	39
OTHER PUBLIC SERVICES	47	45	65	54
COMMON SERVICES	5	(7)	(32)	(49)
NORTHERN IRELAND	16	53	-	(45)
CIVIL SERV STAFF COSTS	-	.	(50)	(140)
TOTAL	1,589	480	(1,034)	(2,414)

5. FROM THIS TABLE, IT IS CLEAR THAT THE ONLY PROGRAMS TO EMERGE UNSCATHERED ARE "TRADE, INDUSTRY, AND EMPLOYMENT" AND SOCIAL SECURITY. THE ADDITIONAL RESOURCES SUBSTANTIATE THE GOVERNMENT'S COMMITMENT TO THE NEW INDUSTRIAL STRATEGY LAUNCHED LAST NOVEMBER. IN THE CASE OF SOCIAL SECURITY PAYMENTS, SHORT-RUN GOVERNMENT CONTROL IS DIFFICULT BECAUSE SUCH OUTLAYS ARE DETERMINED BY CONJUNCTURAL FACTORS UNDER THE RUBRIC OF GENERAL SUPPORT FOR INDUSTRY, THE NATIONAL ENTERPRISE BOARD WILL RECEIVE IN EQUAL ANNUAL INSTALLMENTS THE ONE BILLION POUNDS PROVIDED FOR IN THE INDUSTRY ACT OF 1975. ABOUT 250 MILLION POUNDS WILL BE AVAILABLE OVER THE NEXT TWO YEARS FOR SELECTIVE ASSISTANCE TO INDIVIDUAL INDUSTRIES, FIRMS AND UNDERTAKINGS. EMPLOYMENT SERVICES AND INDUSTRIAL TRAINING ARE SCHEDULED FOR ANNUAL ALLOCATIONS OF ABOUT 100 AND 200 MILLION POUNDS RESPECTIVELY. THIS REPRESENTS GAINS OF BETWEEN 200 AND 300 PERCENT OVER THE AMOUNTS PREVAILING BETWEEN 1970 AND 1975. FINALLY, THE REFINANCING OF FIXED

RATE EXPORT CREDITS IS BUDGETED TO CONTINUE AT ANNUAL LEVELS OF ABOUT 400 MILLION POUNDS UNDERLINING THE GOVERNMENT'S FIRM INTENT TO KEEP BRITISH EXPORTS COMPETITIVE.

6. COMMENT. THE WHITE PAPER IS A FRANK ADMISSION BY THE GOVERNMENT THAT TRADE-OFFS BETWEEN CONSUMPTION AND INVESTMENTS ARE NO LONGER AVOIDABLE. THERE IS A CLEAR WARNING.

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ING THAT PRIVATE CONSUMPTION WILL HAVE TO BE LIMITED TO A GROWTH RATE BELOW THAT OF NATIONAL OUTPUT SO THAT RESOURCES CAN BE DIVERTED TO REVIVING BRITISH INDUSTRY AND REPAYING THE CUMULATIVE BALANCE OF PAYMENTS DEFICITS OF THE LAST DECADE. HOWEVER, PRIVATE CONSUMPTION IS NOT ALONE IN BEING SQUEEZED FOR ADDED RESOURCES. PUBLIC CONSUMPTION HAS BEEN SHORN OF ITS STATUS AS A SACRED COW. PUBLIC EXPENDITURE ON GOODS AND SERVICES IS SLATED TO DECLINE AT AN ANNUAL RATE OF 1 PERCENT FROM 1976/77 THROUGH 1979/80. TRANSFER PAYMENTS, GRANTS, SUBSIDIES, LOANS AND INTEREST ARE TO DROP AT AN ANNUAL 0.6 PERCENT OVER THE SAME PERIOD.

7. LOUD PROTESTS ABOUT THE SIZE AND NATURE OF THE PLANNED CUTS ARE INEVITABLE FROM CIVIL SERVANTS WHO ANTICIPATE LAYOFFS. FROM LABOR BACKBENCHERS OPPOSED TO MAJOR CUTS IN THE PUBLIC SECTOR ON IDEOLOGICAL AND HUMANITARIAN GROUNDS, AND FROM THE TORIES WHO WILL REGARD THE CUTS AS TOO LITTLE AND THE THREAT OF HIGHER TAXES AS UNTHINKABLE. (SIR GEOFFREY HOWE, THE SHADOW CHANCELLOR, HAS ALREADY BEGUN THE ATTACK.) WITHIN THE GOVERNMENT, ADVOCATES OF A STRONG COMMITMENT TO A MEDIUM-TERM STRATEGY THAT PERMITS A FLOW OF NEW RESOURCES INTO INVESTMENT AND EXPORTS AT THE EXPENSE OF INCREASES IN PUBLIC AND PRIVATE CONSUMPTION ARE IN THE DRIVER'S SEAT. FOR A LABOR GOVERNMENT, THIS IS NO MEAN ACHIEVEMENT. SPIERS

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